



STATE OF CONNECTICUT
DEPARTMENT OF BANKING
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TESTIMONY SUBMITTED TO THE BANKS COMMITTEE

Commissioner Howard F. Pitkin

March 4, 2014

H.B. 5268, *An Act Concerning Consumer Credit Licenses,*
H.B. 5352, *An Act Concerning Mortgage Servicers,*
H.B. 5353, *An Act Concerning Connecticut's Financial Institutions,*
H.B. 284, *An Act Concerning the Cost of Constructive Service, and*
H.B. 283, *An Act Concerning Minor and Technical Changes to the Banking Laws*

Good afternoon Chairman Leone, Chairman Tong and members of the committee. My name is Howard F. Pitkin and I am the Commissioner of the Connecticut Department of Banking. I am here to testify in support of five pieces of legislation.

The first bill is **H.B. 5268, *An Act Concerning Consumer Licenses.*** This proposal authorizes the Banking Commissioner to use the Nationwide Mortgage Licensing System and Registry (NMLS) for licensing or registration of any person engaged in a financial services industry within the jurisdiction of the Commissioner and to make other technical and conforming changes. At the outset, it is important to note that this bill passed the Senate last year (S.B. 826) and the House would likely have easily passed it, but the clock ran out and Father Time killed the bill.

While it sounds somewhat dry on the surface, this proposal represents a unique opportunity for smarter and more effective regulation while, at the same time, harnessing technology to reduce costs on both government *and* industry.

The NMLS is an excellent example of coordinated regulation – among and between state and federal regulatory agencies. All States currently use the system to manage mortgage related licensing, but perhaps its greater potential, however, is that NMLS is also an effective system to manage licensing and registering for *non-bank* entities such as collection agencies, debt adjusters, check cashers, small loan companies and sales finance companies. The NMLS is currently being used by 21 states to manage the licensing of these financial industries and there are an additional 11 states that plan to expand their use of the system in 2014.

The chief substantive benefit of adopting the NMLS for use beyond the mortgage market is that, as noted earlier, this system allows regulators to monitor licensees across state lines and across industries. For example, using NMLS will help the DOB identify those licensees who may be violators in other states.

The next legislative proposal is **H.B. 5352, *An Act Concerning Mortgage Servicers***. This bill creates a new regulatory scheme to be administered by the Commissioner governing persons that act as mortgage servicers effective January 1, 2015. The mortgage servicer license will better protect Connecticut borrowers by requiring that these largely unregulated companies comply with standards of conduct and meet other regulatory and disclosure obligations. It also gives the Commissioner authority to take enforcement action against persons and mortgage servicer licensees who violate the provisions of the act.

In brief, mortgage servicers are the companies that the borrower typically interacts with during the life of the loan, despite the fact that the loan is actually owned by another company. The servicer generally collects payments from the mortgage borrower on behalf of the loan's owner; they typically handle customer service, escrow accounts, collections, loan modifications, and foreclosures. Lenders frequently contract out servicing after the mortgage deal is signed, thus the borrower often has extremely little say in the choice of mortgage servicer.

As almost every local and national news source has reported recently, the mortgage servicing industry has experienced problems with bad practices and sloppy recordkeeping. Far beyond hurting the servicer's bottom line, those problems have left many borrowers vulnerable and exposed to unnecessary financial hardships. For example, borrowers typically complain of servicers who lose their own paperwork or fail to acknowledge receipt of documentation the borrowers send in.

The regulatory challenge to the DOB that this bill addresses is this: while the Department has authority over numerous statutes relating to the origination of mortgages, including the licensing of mortgage lenders, brokers and originators, there is little authority that the Department has *after* a mortgage loan has been closed and funded. Currently, due to the fact that Connecticut does not require mortgage servicers to be licensed, the Department has little leverage to assist borrowers when they have problems with their servicer. Simply put, this bill allows Connecticut to protect more borrowers throughout the life of their loan.

This bill dovetails well with Governor Malloy's recent initiative to streamline the regulatory process in Connecticut. Specifically, the Department will end the unnecessarily burdensome practice of manually processing paper applications for approximately 2000 licensees. And, much like the consumer credit license bill (H.B. 5268) I testified to earlier, we will be able to see when our licensees and applicants have problems or violations in other states. Consequently, the Department will vet companies more swiftly and thoroughly – and our examiners will then be freed up to focus more deeply on other investigations and examinations.

H.B. 5353, *An Act Concerning Connecticut's Financial Institutions*, makes a number of minor changes to the laws which govern financial institutions in the state. The proposal adds a requirement for notification when a loan production office will be permanently closed, clarifies that business and industrial development corporation licenses are not transferable or assignable, and clarifies that ATMs providing telephonic or live video connections to bank personnel are not considered bank branches.

H.B. 284, *An Act Concerning the Cost of Constructive Service*, would allow constructive legal service on the Commissioner to be delivered using certified mail in addition to registered mail and overnight delivery. Certified mail is less expensive than registered mail. This is simply a cost-saving measure that will enable the Department to use a less expensive, but no less reliable method of delivering notice of the service to the defendants or respondents, as the case may be.

The last bill I am here to support is **H.B. 283, *An Act Concerning Technical Changes to Banking Laws***. As the name implies, it makes various technical changes to the statutes. Our preference would be for this language to be placed in the annual technical revisions bill. This bill, in addition to eliminating some unnecessary or erroneous statutory cross-references, also expands the definition of Branch Office to include mortgage loan originations (i.e. "sales").

Thank you for your attention to these matters. I am happy to answer any questions you may have.